

Risky Business

The hazards of retail dependency

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It's an undisputed fact that buying and selling goods online is transforming our lives. By 2017, U.S. online retail sales are forecasted to reach \$370 billion and European online retail is on pace to reach €191 billion.¹ The evolution of consumer habits is changing rapidly. So rapidly, in fact, that if you are focusing your business's growth on brick and mortar retail stores, your market may already be in decline.

Today online market growth has surpassed brick and mortar stores, putting consumer brands in a position to examine and evolve their retail channel strategies. While most sales are still occurring in the retail store environment, 2015 holiday retail sales actually declined 6%, while online sales grew 13%.²

Conventional wisdom tells brands that aligning with major retail channels is the best bet for success and there is talk about how and why to avoid competition with those channels. But this thinking is in stark contrast with the time tested economic practice of diversification. Just as you wouldn't put all of your personal assets into a single venture, you shouldn't be limiting your business's sales potential to retail channels alone.

Diversifying your channel strategy is the single most important thing you can do to create a healthy and vibrant business, reaching the greatest number of potential customers. Don't risk your business's success by depending too heavily on your traditional retail channel. Instead, take steps to ensure that your brand is strongly represented online through cross-channel strategies.

Evaluate Your Risk of Over-Reliance on Retail

In 1994 when Jeff Bezos was still articulating his vision for Amazon as an ‘everything store,’ the consumer landscape was different. Brands couldn’t imagine they would be able to sell products that seemingly relied on tactile shopping processes like fragrances or clothing online. In fact, there was very little belief that the internet could transform an online platform into a store that could sell these types of tangible goods.

Amazon proved the naysayers wrong. In 2009, consumption via online channels was up by 11% and Amazon was hitting its stride.³ Today, Amazon offers every conceivable consumer item and works tirelessly to create new perks for shopping online in an effort to get consumers to convert from the physical world to the virtual. One of these “perks” is Amazon Prime—an incredibly successful loyalty program clad in the moniker of shipping convenience. Prime membership continues to boost Amazon’s revenue over time as warehouses grow exponentially, making shipping to major metropolitan areas cheaper and faster. Prime also hit on a favorite sweet spot – instant gratification.

So why wouldn’t you jump wholeheartedly onto the Amazon bandwagon as your primary retail channel? The answer is this: you should be on Amazon to build your business because they do attract consumers, as does your traditional brick and mortar partners, but so would your own online store. You should not be reliant on Amazon or any other retail channel as your sole route to market. Many great brands have given in to market pressures and elation over the dizzying growth of online sales, allowing their goods and services to be represented in just one or two retail marketplaces. While the temptation is strong to get involved singularly with highly successful online retailers like Amazon, there are some very serious drawbacks that brands should consider.

Unsteady market shifts

Fast-paced changes in consumer habits in the online market means that tectonic shifts can occur quickly, with major marketplaces becoming vulnerable to economic instability, mergers and even foreclosures.

Power players

Over-indexed retailer relationships creates risk with a concentration of goods in a few sources. This concentration usually results in increased MDF with select retailer(s) and price compression in the marketplace. Diversification amongst strategic partners is a means to disintermediate these pressures.

Forced competition

Marketplaces function by selling products from multiple producers and multiple sellers, which essentially means that you’re competing for virtual shelf space amongst a traditionally price driven economy. Once your customer is inside a marketplace, you are vulnerable to losing out on a sale to a similar product from a competing brand.

Hidden losses

Ironically, brands that struggled with the takeover of the big box paradigm and an over concentration of their product at a few retailers are now facing the same difficulties with major online marketplaces – effectively dealing with the same problem in the virtual environment. The unfortunate outcome of this problem, both in the brick and mortar and virtual space, is that brands sell through these channels to maintain revenue, often competing on price, thereby reducing their capacity for healthy growth.

Are you channel dependent?

If you answer yes to one or more of the questions below, your business might have a concentration problem:

- Is 30% or more of your revenue controlled by a single outside retailer?
- Are your products properly represented in retail marketplaces?
- Are your customers forced to buy from an outside source – with no way to buy direct from you?

Invest in Your Customer by Creating a Superior Experience

Great brand experiences are invaluable. The better your brand positioning and reviews, the more success you will find across traditional channels. Apple is generally overused as an example of great brand strategy – but for good reason. The company has built an incredibly successful line of products and services that succeed brilliantly across multiple channels - brick and mortar stores, direct channels and large retail marketplaces. Not a single one of these channels dilutes another. Instead, they all feed the success of the others and create a brand that is practically unassailable. This focus on branding and strict MAP policies is an often overlooked method for driving business towards long term viability and success. It's a message that is all too easily lost in metrics and strategic plans and is more difficult to quantify than the percentage of abandoned shopping carts or net quarterly gains.

The concept of creating a valuable experience around your product and building relationships with your customers will create desire on the part of consumers to not just buy a product, but to buy your product specifically. Building this loyalty provides insurance against losses incurred from competing retailers in saturated and price competitive marketplaces. While some shoppers are only looking for the lowest price, there is a large number of consumers who are looking for the best value. Maybe you are unsure about whether or not a direct or diversified channel would benefit you, or maybe you are nervous that introducing more channels will threaten the main retail channel that brings in a large portion of your revenue. Whatever your position, consider the following benefits of investing in a multi-channel approach that will also positively impact your customer experience:



Incentivize direct channel purchasing

Direct channel purchasing comes with major perks. Not only do you retain the whole purchase value, you also ensure a positive customer experience resulting in brand loyalty and trust. An example of handling the customer experience beautifully from a value standpoint comes from the mobile phone industry. HTC, a mobile phone brand, designed a value added service offering an 'Uh-oh' protection policy for shoppers buying direct. The policy covers a one-time free replacement of the handset for those 'uh-oh' moments. Brilliant - the manufacturer benefits by driving up proprietary sales and develops a better customer relationship at the same time.⁴



Stand by your customer

Staying with your customer for as long as possible is an excellent way to ensure the best conversion rates and sales growth. Owning the experience that your customer has with your brand extends to every single output you generate. Whether it's a blog post or a bundle deal, every piece of content you produce is an important touchpoint in the purchase journey. They add to your understanding of customer preference, allowing you to tweak and adjust your offerings as needed. If a customer's only interaction with your brand happens in a retail marketplace, they don't have the benefit of understanding what value you provide and you essentially become a product image with a price attached to it. More than that, customers who leave a brand's website to purchase on a retail marketplace end up buying a competing product or totally unrelated product over 50% of the time.⁵



Data is worth its weight in gold

The ability to track and analyze customer data is critical. Understanding everything, from which promotions motivate customers to buy to when people abandon shopping carts are all pieces of a much larger puzzle. When your customer leaves your site to buy from another retail marketplace, this essential information is lost as is your ability to create adjustments that will maximize your brand's potential.



Keep competing products off the screen

As soon as your customer jumps to a retail channel, they are in essence walking down an aisle full of similar competing products with endless variables. Another business may offer a similar product on promotion, or offer speedier shipping methods. They may have a stronger brand presence or offer a bundled option that is more appealing. By owning the experience through direct sales, you mitigate some of these variables and keep the customer away from the distraction of competing products. By adding additional retail channels, you have a greater likelihood of reaching more customers who experience your product the way you want your product to be experienced. Diversification can offer protection when one retail channel is pushing a competing product very similar to yours.



Diversify Your Distribution to Achieve the Most for Your Brand

Addressing channel reliance and diversifying your brand provides the opportunity to build a stronger, more resilient brand that is going to have a greater impact on consumers in the long term.

Today shoppers have an overabundance of choices for almost every purchase they make. This saturation in the marketplace means that consumers increasingly want to interact with brands through digital channels in an effort to make more informed decisions. While some consumers think of online shopping primarily as means for saving money, many people see online shopping as the important information-gathering piece of the purchase journey. And 89% of customers will visit a brand's site during their research phase.⁷



Go direct

One of the best ways to diversify your channels, convert customers and close a purchase is to go direct. The implementation of direct online channels comes with building a fortified online presence, which will lead to stronger business/consumer relationships, sales and loyalty. Manufacturers that have implemented these direct to consumer channels are seeing significant YoY growth and some expect the direct channel to be the highest generator of sales within the next two years.⁸

While many businesses are getting on board with direct to consumer online channels in order to build closer relationships with their customers, a 2014 Forrester Consulting Study showed it is very much a two-way street, with the number two reason given for building D2C channels as — demand from consumers. Interestingly enough, companies who built a strong direct to consumer channel saw gains across multiple channels, not just online, with 82% of respondents reporting generally improved relationships with customers and 76% reporting improved customer experience. These gains are proof that creating a direct to consumer channel is about a lot more than adding another pathway to purchase — it's about building a more powerful brand overall.



Create 'sticky' brand content

The problems with over-indexing in retail channels becomes even more complex when you consider the research component consumers are engaging in prior to purchasing a product. Over-indexing makes it far too easy for brands who are providing relevant information to lose the purchase to a slightly less expensive product in the “similar products” or “you might also enjoy” section of major retailer sites. It is vital that brands distinguish themselves from the competition with content rich sites, easy discovery and multiple paths to purchase — the easiest path hopefully being your direct channel.

Remember that most customers buy an unrelated or competing product more than 50% of the time once they have left the brand site. Therefore, chances are pretty good that if you don't guide your customer towards direct sale, they won't be buying from you at all.

Take Control of Your Destiny

Now that you've taken some time to consider the hazards of over-reliance on traditional retail channels and the importance of diversifying your product distribution, it's time to take control of your destiny. The powerful and positive impacts of diversifying shouldn't be minimized by the fear associated with channel conflict. Remember that channel diversity is healthy for all aspects of your business and as one path grows, the others benefit.

There are likely going to be internal sensitivities around building a D2C channel. Sales team incentives, internal politics and relationships with the retail channel partners can make it challenging to implement D2C channels for your brand, but you cannot allow someone else's business model or decisions control the ultimate fate of your brand. If you are tying your future solely to that of another business you are taking a huge risk!



Build your direct channel

If you haven't begun building a direct channel into your online presence, there is no time like the present. As demonstrated by the in-depth Forrester study on the subject, investing in your direct channel will not only create a new purchase pathway, but will generally increase your brand's strength across all channels and improve your relationship with your customers.



Make good use of the data you have

If you are not already aggressively monitoring and tweaking your offerings based on data culled from your online presence, begin doing so in an effort to move your product into the path of your consumers. Find out when and where they leave your site to pursue a purchase elsewhere and respond accordingly.

Take control. Contact us to future-proof your business.

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